

Message Text

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FOR CEA, TREASURY, AND FRB

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: PROPOSED GROWTH STUDY BY DISTINGUISHED
ECONOMISTS GROUP

REF: OECD PARIS 15863 AND PREVIOUS

1. SECGEN HAS ISSUED NOTE FOR DISCUSSION AT OECD COUNCIL ON JULY 10 PROPOSING ESTABLISHMENT OF INDEPENDENT ECONOMISTS GROUP ON GROWTH. THIS FOLLOWS SUGGESTION MADE BY SECRETARY KISSINGER AT MAY MINISTERIAL MEETING AND GENERAL ENDORSEMENT OF IDEA BY EPC. TEXT OF NOTE AND PROPOSAL TO COUNCIL IS REPRODUCED VERBATIM UNDER PARAGRAPH 5 BELOW.

2. COMMENT: MISSION UNDERSTANDS THAT SECRETARIAT'S NOTE REFLECTS DISCUSSION HELD LAST WEEK BETWEEN SECGEN AND STAFF AND DR. MCCracken. MAIN QUESTION WHICH WOULD SEEM TO NEED FURTHER CLARIFICATION CONCERNS
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NATURE OF SECRETARIAT'S SUPPORT ROLE FOR ECONOMISTS GROUP,

AS MENTIONED IN LAST SENTENCE OF PARAGRAPH 9 OF SECRETARIAT'S NOTE. WHILE WE WOULD NOT WANT TO STIMULATE ANY DISCUSSION OF THIS POINT IN COUNCIL, WOULD BE USEFUL FOR MISSION TO KNOW LATEST U.S. VIEWS ON HANDLING OF SUPPORT FOR THE GROUP. SECRETARIAT'S PRESENT THINKING APPEARS TO BE TO DESIGNATE MEMBER OF SECRETARIAT TO HEAD A SUPPORT TEAM, ALTHOUGH OPTION OF BRINGING IN STAFF DIRECTOR FROM OUTSIDE HAS NOT BEEN CLOSED. SECRETARIAT NOTES THAT, IN TALKS WITH MC-CRACKEN, THIS POINT WAS LEFT OPEN BUT IT WAS AGREED THAT IT WOULD BE RESOLVED IN A WAY MUTUALLY SATISFACTORY TO CHAIRMAN OF ECONOMISTS GROUP AND TO SECRETARIAT.

3. SCENARIO FOR COUNCIL CONSIDERATION. SECRETARIAT SEES COUNCIL DISCUSSION ON MAY 10 AS OCCASION FOR PRELIMINARY EXCHANGE OF VIEWS AND WILL NOT PRESS FOR ADOPTION OF PROPOSED DRAFT ENTRY IN COUNCIL MINUTES AUTHORIZING IMPLEMENTATION OF THE PROPOSAL. SECRETARIAT HOPES, HOWEVER, THAT CONSIDERATION ON JULY 10 WILL BE SUFFICIENTLY FAVORABLE TO PERMIT APPROVAL OF DRAFT ENTRY AT FOLLOWING COUNCIL MEETING WHICH NOW BEING PLANNED FOR JULY 15 OR 16.

4. ACTION REQUESTED. MISSION WOULD APPRECIATE COMMENTS ON SECRETARIAT'S PAPER IN TIME FOR JULY 10 COUNCIL MEETING. MISSION PROPOSES TO SUPPORT SECRETARIAT'S PAPER AND TO MAKE CLEAR STRONG U.S. INTEREST IN HAVING INDEPENDENT STUDY OF THIS KIND LAUNCHED WITHOUT DELAY.

5. TEXT OF NOTE BY THE SECRETARY-GENERAL, ENTITLED "NON-INFLATIONARY ECONOMIC GROWTH A REVIEW OF PROBLEMS AND POLICIES," WHICH WAS ISSUED AS C(75)116 OF JULY 4, 1975, IS AS FOLLOWS:

BEGIN QUOTE

1. AT ITS MEETING ON 27TH-28TH MAY, THE COUNCIL MEETING AT MINISTERIAL LEVEL AGREED THAT THE ORGANISATION SHOULD CARRY FORWARD AND ACCELERATE ITS RELIMITED OFFICIAL USE

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ASSESSMENT OF THE PROSPECTS FOR SUSTAINED ECONOMIC GROWTH AND THE CONSTRAINTS ON SUCH GROWTH, PARTICULARLY THOSE ARISING FROM INFLATION, UNDER CHANGING CIRCUMSTANCES.

2. MINISTERS ALSO NOTED WITH INTEREST A PROPOSAL MADE BY THE UNITED STATES GOVERNMENT THAT A SMALL NUMBER OF ECONOMISTS OF INTERNATIONAL REPUTE SHOULD

BE INVITED, DRAWING ON THIS WORK, TO EXAMINE THE
POLICY ISSUES AND MAKE RECOMMENDATIONS.

3. SUBSEQUENTLY, THIS PROPOSAL HAS BEEN DISCUSSED IN
THE ECONOMIC POLICY COMMITTEE, AND THERE APPEARS TO BE
CONSIDERABLE SUPPORT FOR THE VIEW THAT AN EXAMINATION BY
AN INDEPENDENT EXPERT GROUP COULD BE OF GREAT HELP TO

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POLICY MAKERS IN FORMULATING THEIR FUTURE GROWTH. THE
SECRETARY-GENERAL THEREFORE PROPOSES THAT A GROUP OF
INDEPENDENT EXPERTS BE SET UP, FOLLOWING THE PROCEDURE
OUTLINED IN THE ANNEX.

4. FOR THIS PURPOSE THE SECRETARY-GENERAL INVITES THE
COUNCIL TO ADOPT THE FOLLOWING DRAFT ENTRY IN ITS
MINUTES:

"THE COUNCIL

(A) NOTED THE NOTE BY THE SECRETARY-GENERAL,
(C(75)116) PROPOSING THE SETTING-UP OF
AN INDEPENDENT EXPERT GROUP TO SUGGEST
POSSIBLE STRATEGIES FOR THE ACHIEVEMENT
OF NON-INFLATIONARY GROWTH:

(B) AUTHORISED THE SECRETARY-GENERAL TO MAKE
THE NECESSARY ARRANGEMENTS FOR THE ESTAB-
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LISHMENT OF SUCH A GROUP ALONG THE LINES
INDICATED IN THE ANNEX TO THAT NOTE."

C(75)116

ANNEX

PROPOSALS FOR AN INDEPENDENT
EXPERTS' GROUP ON NON-INFLATIONARY

1. A NEW LOOK AT THE OECD AREA'S PROSPECTS FOR
SUSTAINED AND NON-INFLATIONARY ECONOMIC GROWTH OVER THE
MEDIUM AND LONGER RUN IS CLEARLY REQUIRED. THE NEED
FOR SUCH AN EXERCISE WAS VOICED BY THE ECONOMIC POLICY
COMMITTEE IN MARCH AND WAS CONFIRMED BY THE COUNCIL
MEETING AT MINISTERIAL LEVEL ON 27TH-28TH MAY. SOME
OF THIS WORK WILL BE CARRIED OUT BY THE SECRETARIAT
AND BY THE ORGANISATION'S EXISTING BODIES IN THE COMING
YEAR. THE FOLLOWING PARAGRAPHS PUT FORWARD SUGGESTIONS
FOR THE SETTING UP OF AN INDEPENDENT EXPERT GROUP WHICH
SHOULD CONCURRENTLY ASSESS THE CIRCUMSTANCES ATTENDING
ECONOMIC GROWTH IN THE YEARS AHEAD, AND IN PARTICULAR,
DRAWING ON THE PRACTICAL EXPERIENCE OF ITS MEMBERS,
REVIEW THE POLICY ISSUES. AFTER SOME GENERAL CONSIDERA-
TIONS, PROPOSALS ARE PUT FORWARD CONCERNING THE TERMS OF
REFERENCE, THE COMPOSITION OF THE GROUP AND THE TIMING OF
ITS WORK' AND THE FINANCIAL IMPLICATIONS.

GENERAL CONSIDERATIONS

2. THE LAST FEW YEARS HAVE WITNESSED THE CUMULATIVE
RESULTS OF SOME IMPORTANT CHANGES IN THE ECONOMIC SITUA-
TION OF OECD COUNTRIES WHICH MAY BE AFFECTING THE BASIC
PATH AND CHARACTER OF ECONOMIC DEVELOPMENT. AMONG THE NEW
PROBLEMS ARE:

-- THE EMERGENCE OF EXTREMELY HIGH RATES OF
INFLATION, WHOSE DISPLACEMENT EFFECTS ON

INCOME AND WEALTH DISTRIBUTION AND ON RESOURCE
ALLOCATION HAVE BEEN INSUFFICIENTLY EXPLORED;
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- THE PRESSURE, IN MOST COUNTRIES, FOR A
CONTINUED EXPANSION OF PUBLIC EXPENDITURES,
MUCH OF WHICH IS LINKED WITH SOCIAL OBJECTIVES
LIKE REDUCING INEQUALITIES OF INCOME AND
OPPORTUNITY AND IMPROVING THE QUALITY OF LIFE;
- INCREASED INVESTMENT REQUIREMENTS TO MEET NEW
DEMANDS IN ENERGY' POLLUTION CONTROL, AND OTHER
SECTORS AND TO ADAPT TO RAPID STRUCTURAL
CHANGES; AND
- THE IMPACT OF SIZEABLE TERMS OF TRADE SHIFTS
BETWEEN THE INDUSTRIALISED AND THE DEVELOPING
WORLD.

3. POLICY INSTRUMENTS HAVE SO FAR HAD ONLY VERY
LIMITED SUCCESS IN COPING WITH THESE NEW DIFFICULTIES:
THE CAPACITY TO USE THEM HAS BEEN LIMITED, AND THERE ARE
UNCERTAINTIES AS TO HOW FAR THEY ARE RELEVANT TO
THESE PROBLEMS. CONCERN HAS BEEN EXPRESSED IN MANY
QUARTERS THAT SOME OF THESE PROBLEMS COULD PROVE RECUR-
RENT, AND THAT PROLONGED PERIODS OF INFLATION AND/OR
RECESSION COULD ENDANGER SOCIAL AND POLITICAL COHERENCE.

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IT IS CLEAR THAT NEW APPROACHES MUST BE SOUGHT AND NEW POSSIBILITIES FOR ACTION EXPLORED IF CONDITIONS OF STABLE GROWTH ARE TO BE RESTORED IN THE FUTURE.

4. THE SECRETARY-GENERAL FEELS THAT THE PROPOSED HIGH LEVEL GROUP COULD MAKE AN IMPORTANT CONTRIBUTION TO A BETTER UNDERSTANDING OF SUCH ISSUES AT NATIONAL AND INTERNATIONAL LEVELS, AND, BY VIRTUE OF ITS INDEPENDENT STATUS, TO A RE-THINKING OF THE APPROPRIATE POLICY RESPONSE. DRAWING UPON THE RELEVANT WORK OF THE ORGANIZATION, THE GROUP COULD CONCENTRATE ON THE BROAD ECONOMIC AND SOCIAL PROBLEMS WHICH OECD COUNTRIES ARE LIKELY TO FACE OVER THE COMING YEARS, AND MAKE RECOMMEND RECOMMENDATIONS CONCERNING THE POLICY INSTRUMENTS AND MEASURES WHICH MIGHT BE NECESSARY TO DEAL WITH THEM.

5. THE EXPERTS CHOSEN SHOULD BE OF INTERNATIONAL
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REPUTE, COMBINING DISTINCTION IN THEIR OWN FIELD WITH PRACTICAL EXPERIENCE OF POLICY MAKING. INDEPENDENT STATUS WOULD BE A PRE-REQUISITE FOR THEM TO BE ABLE TO APPROACH FREELY AND OPENLY MAJOR POLICY OPTIONS.

TERMS OF REFERENCE

6. THE TERMS OF REFERENCE OF THE GROUP WOULD BE TO IDENTIFY AND CONSIDER THE MAIN POLICY ISSUES INVOLVED IN THE PURSUIT, BY MEMBER COUNTRIES, OF NON-INFLATIONARY ECONOMIC GROWTH IN THE LIGHT OF THE STRUCTURAL CHANGES WHICH HAVE TAKEN PLACE IN THE RECENT PAST; MAKE SUGGESTIONS ON THE ALTERNATIVE STRATEGIES AND INSTRUMENTS THAT MEMBER COUNTRIES COULD ADOPT BOTH AT NATIONAL AND

INTERNATIONAL LEVELS, IN ORDER TO DEAL SUCCESSFULLY WITH THOSE ISSUES.

RELATIONS WITH OTHER WORK IN THE ORGANISATION

7. IN ADDITION TO ON-GOING WORK ON LONGER RUN PROBLEMS IN VARIOUS AREAS OF THE SECRETARIAT, THREE PROJECTS HAVE BEEN RECENTLY LAUNCHED OR PROPOSED WHICH AIM SPECIFICALLY AT EXAMINING FUTURE ECONOMIC TRENDS IN THE OECD AREA AS A WHOLE:

(I) WORKING PARTY NO. 2 OF THE ECONOMIC POLICY COMMITTEE HAS DECIDED TO TAKE A NEW LOOK AT THE PROSPECTS FOR GROWTH. IN A FIRST STAGE, IT WILL ANALYSE NATIONAL PROJECTIONS TO 1980. IN A SECOND STAGE, IT HOPES TO EXTEND ITS HORIZON TO 1985 AND EXPLORE VARIOUS GROWTH SCENARIOS UNDER ALTERNATIVE ASSUMPTIONS FOR INFLATION, PUBLIC EXPENDITURE, TERMS OF TRADE SHIFTS, ETC.

(II) THE INDUSTRY COMMITTEE IS EMBARKING UPON A DETAILED ANALYSIS OF THE INDUSTRIAL STRUCTURES LIKELY TO EMERGE OVER THE COMING DECADE TAKING INTO ACCOUNT RECENT CHANGES AFFECTING INDUSTRY IN MEMBER COUNTRIES AND ASSESSING, WHERE POSSIBLE, THE LIKELY EFFECTS ON THE PATTERN OF LIMITED OFFICIAL USE

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WORLD TRADE.

(III) FOLLOWING AN INITIATIVE OF THE JAPANESE GOVERNMENT, THE ORGANISATION IS AT PRESENT CONSIDERING A LONGER-RUN INTER-DISCIPLINARY RESEARCH PROJECT WHICH SHOULD REASSESS THE FUTURE DEVELOPMENT OF ADVANCED INDUSTRIAL COUNTRIES IN HARMONY WITH THE DEVELOPING WORLD.

8. IT IS NOT PROPOSED THAT THE GROUP SHOULD AT ANY STAGE DUPLICATE ANY OF THIS WORK. IT COULD DRAW ON THE WORK AND MIGHT INJECT SUGGESTIONS FOR ITS FUTURE DEVELOPMENT. BUT, BASICALLY, THE GROUP'S FUNCTION IS THAT OF A RE-APPRAISAL OF POLICY IN RESPECT OF PROBLEMS THAT WILL NEED TO BE SOLVED TO ENSURE MORE BALANCED ECONOMIC AND SOCIAL DEVELOPMENT IN THE YEARS AHEAD.

COMPOSITION

9. IT IS PROPOSED THAT THE GROUP BE COMPOSED OF SOME 5 TO 7

MEMBERS. THE SECRETARY-GENERAL WOULD SEEK TO ENSURE THAT THE EXPERTS' KNOWLEDGE AND EXPERIENCE COVER THE RANGE OF ISSUES TO BE EXAMINED AND THE DIFFERENT

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ECONOMIC CIRCUMSTANCES AND LEVELS OF DEVELOPMENT OF MEMBER COUNTRIES. THE GROUP WOULD DRAW ON THE SECRETARIAT FOR SERVICING AND FOR ANALYTICAL WORK, BUT IT MAY ALSO WISH TO CALL FOR EVIDENCE ON SPECIFIC PROBLEMS FROM OUTSIDE EXPERTS.

WORK SCHEDULE

10. ASSUMING THAT THE AD HOC GROUP IS ABLE TO BEGIN WORK IN THE AUTUMN OF 1975, IT SHOULD SUBMIT ITS REPORT BY THE END OF 1976, OR EARLY 1977 AT THE LATEST. THE SECRETARY-GENERAL WOULD PLAN TO PUBLISH THE GROUP'S

FINDINGS ON HIS OWN RESPONSIBILITY, MAKING IT CLEAR THAT
THE REPORT DID NOT COMMIT OECD GOVERNMENTS.

FINANCIAL CONSIDERATIONS

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11. A SIGNIFICANT ANALYTICAL AND INTELLECTUAL INPUT
WILL BE REQUIRED FROM THE SECRETARIAT, OVER AND ABOVE
ITS COMMITMENTS IN THIS FIELD FOR THE REGULAR BODIES OF
THE ORGANIZATION. THE SECRETARY-GENERAL BELIEVES THAT
THE NECESSARY RESOURCES, INCLUDING THE DIRECT COSTS OF
THE GROUP ITSELF (TRAVEL AND FEES) CAN BE FOUND WITHIN
THE OVERALL FRAMEWORK OF HIS TARGET BUDGET PROPOSALS.
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